

Appendix E

Reserve Fund Policies

a. The City will maintain General Fund reserves at a level at least equal to 8.5% of the total General Fund budgeted revenue, excluding the beginning fund balance, building permit revenue and any significant one-time revenue.

These reserves shall be created and maintained to provide the capacity to:

- 1) Offset significant downturns and revisions in any general municipal purpose fund; and
- 2) Provide a sufficient cash flow for daily financial needs at all times.

b. The City will maintain a building permit reserve in the Operating Reserves Fund to provide for completion of building permit responsibilities in the event of a decline in development activity. This reserve will be equal to 25% of the annual building inspection and review costs.

c. The City will maintain a 12% operating reserve in the following funds: Water/Wastewater Operations and Maintenance, Stormwater Management and Solid Waste/ Recycling. This operating reserve shall be created and maintained to provide sufficient cash flow to meet daily financial needs and will be based upon total operating expenses. For budgeting purposes, operating expenses will be calculated upon the funds' total expense budgets excluding ending fund balances, capital purchases, and the current year's portion of principal paid on outstanding debt.

d. A depreciation reserve shall be established to replace utility capital, plan, and equipment in the following funds: Water/Wastewater Operations and Maintenance and Stormwater Management. This reserve will be adjusted biennially by the most current year's depreciation expense less bond reserves, principal paid on outstanding debt, and purchases of replacement capital.

e. Bond reserves shall be created and maintained by the Water/Wastewater and Stormwater Utilities in accordance with the provisions set forth in the bond covenants.

f. The City shall additionally maintain the following Equipment Replacement Reserve Funds:

- 1) Fleet Maintenance Reserve;
- 2) Fire Equipment Reserve; and
- 3) Capital Equipment Reserve for general asset replacement.

The Equipment Reserve Funds will be maintained at a level sufficient to meet scheduled equipment replacement so as to sustain an acceptable level of municipal services and prevent a physical deterioration of city assets.

g. The City shall also maintain Reserve Funds as follows:

- 1) All statutorily required reserve funds to guarantee debt service; and
- 2) A vacation accrual reserve.

No reserve shall be established for sick leave. One-fourth of accrued sick leave is payable only upon retirement, and is not considered material.